Internationalisation, outsourcing and labour fragmentation: the case of FIAT

Giovanni Balcet and Grazia Ietto-Gillies*

Companies’ strategies of domestic and international location of production and of externalisation/outsourcing are linked to their effects on labour fragmentation and, in general, to strategies towards labour. The paper starts with a theoretical analysis on the strategies of transnational companies and their impact on labour. An application to the Fabbrica Italiana Automobili Torino (FIAT) company follows. After a brief history of the company and of the Italian industrial relations system, the paper concentrates on four post-World War II periods: 1950–68, 1969–80, 1981–2003 and 2004–16. In each period, the above key strategies are highlighted and considered in relation to industrial relations in the same period. Other strategies are mentioned as appropriate. The analysis of each period focuses on the linkages between the three sets of strategies in a multidisciplinary context. The methodology centres on a detailed analysis of a historical case and on the interplay of strategic behaviour by both the company and labour. In terms of empirical material, we use a variety of historical and multidisciplinary secondary sources, data from FIAT’s historical archives and a series of informal interviews with FIAT experts. We conclude that there is historical evidence of a pattern of strategic moves and countermoves by both FIAT and its labour force and Trade Unions, with effects on labour fragmentation and labour relations.

Key words: Internationalisation, Transnational corporations, Exports, Outsourcing, Labour relations, FIAT company, Italy

JEL classifications: D2, F16, F21, F23, J51, J53, L24

Manuscript received 20 March 2017; final version received 27 July 2018.

Address for correspondence: Grazia Ietto-Gillies, London South Bank University and Birkbeck University of London; email: g.iettogillies@yahoo.co.uk

* Professor of International Economics and International Business, University of Turin (GB); Emeritus Professor of Applied Economics, London South Bank University and Visiting Professor, Birkbeck University of London (GI-G). The authors are grateful to the following people for reading earlier drafts and offering comments: Cesare Annibaldi, Giuseppe Berta, Donald Gillies, Salvo Leonardi, Maurizio Magnabosco, Enzo Martino, Stefano Musso and Michael Rigby; and to Maurizio Torchio for access to data on the FIAT Archive. A version of this paper was presented at a workshop of the Dipartimento di Economia Marco Biagi, Università di Modena e Reggio Emilia, 30 May 2016. We are grateful to Margherita Russo for organising the workshop, to the three discussants (Fulvia D’Aloisio, Francesco Garibaldo and Francesco Zirpoli) and to the late Andrea Ginzburg for detailed comments. Other participants have also offered welcome comments. Lastly we are very grateful to three referees of this journal for their useful comments.

© The Author(s) 2019. Published by Oxford University Press on behalf of the Cambridge Political Economy Society. All rights reserved.
1. Introduction

The vast literature on the explanations of the activities of transnational corporations (TNCs)\(^1\) include many that take a strategic approach (Hymer, 1960; Vernon, 1966, 1979; Knickerbocker, 1973; Dunning, 1977, 1980; Cowling and Sugden, 1987, 1998; Cantwell, 1989; Dunning and Lundan, 2008). However, it is not easy to allocate theories to the strategic or non-strategic approach partly because of difficulties in defining and identifying what is—and is meant by—strategic. Strategies can be distinguished by whether they are directed towards other actors or specific activities. Whatever the main aim, any strategy is bound to involve one or several of the firm’s activities and to affect a variety of actors and geographies. In relation to actors, strategies can be directed towards: rival companies, consumers, labour, suppliers and distributors, partners, and governments of home and/or host countries. In relation to activities, we identify the following: (a) internal organisation of the company; (b) technology and production methods; (c) localisation of production; (d) organisation of production; (e) localisation of functions, including research and innovation activities; (f) product development; (g) modalities of internationalisation; (h) markets and (i) growth strategies, organic or via mergers and acquisitions.

In what follows we shall concentrate on three specific elements of strategy: (i) geographical localisation of production with specific emphasis on internationalisation strategies, (ii) outsourcing versus internalisation of production and (iii) strategies towards labour and how they interact with (i) and (ii). Following a theoretical analysis of these three strategic elements, we shall then apply it to a study of Fabbrica Italiana Automobili Torino (FIAT) in its historical setting since World War II. The three elements are considered in the context of the overall company’s trajectory. Other elements of strategies will be commented on if and when they are seen as interacting with the three that are the object of our analysis.

The novel contribution of the paper is in terms of its historical analysis in a multi-disciplinary context of the three strategic elements and their interaction at both theoretical and applied levels. The methodology used hinges on a case study in historical setting. Our approach to the behaviour of large companies is rather novel in relying on strategies rather than on equilibrium and static analysis. Regarding the background information on the history of FIAT in the Italian context, we rely on the following: (a) secondary, mostly published, material; (b) data from FIAT’s historical archives; and (c) information from a series of unstructured interviews with experts in various aspects of the company. They are: Cesare Annibaldi, former Director of Industrial Relations and External Relations, FIAT Group; Giuseppe Berta, Professor of Economic History at Bocconi University, Milan; Michele De Palma, National Secretary of FIOM (Federazione Impiegati Operai Metallurgici); Salvo Leonardi, Senior Resercher at the ‘Fondazione Di Vittorio’, Rome; Maurizio Magnabosco, former Director of Human Resources at FIAT Auto; and Stefano Musso, Professor of Contemporary History at the University of Turin.\(^2\)

---

2. Annibaldi, Berta and Musso were interviewed by GB, respectively, on 14 and 28 April 2015, 5 June 2015 and 27 January 2015; De Palma by GI-G on 19 May 2015 and Leonardi by GB and GI-G on 25 February and by GI-G on 22 October 2015; Magnabosco by GB on 15 September 2015. We are very grateful to all of them for giving us their time and their valuable insights. None of them is responsible for the views expressed in this paper.
Internationalisation, outsourcing and labour fragmentation

The paper proceeds as follows. The next section presents a theoretical analysis of our three chosen strategic elements and of their interaction. Section 3 gives a brief introduction to the system of industrial relations in Italy. Section 4 sets the FIAT company within its historical background. Section 5 analyses FIAT in its post-World War II decades, specifically in relation to our three chosen strategic elements. The decades are split into four sub-periods. The last section summarises and concludes.

2. Analysing our strategic elements and their interactions with labour

Our analysis of the selected elements of corporate strategy is centred around the concepts of fragmentation versus integration (Ietto-Gillies, 2019, ch. 15). Localisation strategies—whether within the same country or across several of them—as well as strategies of outsourcing can be seen as both fragmenting and integrating at the same time. The geographical dispersion of production or markets can spatially—within the same country or across several—fragment the production process or company’s activities. Conversely, the very same activities, when looked at from a more macro perspective, can be seen as integrating geographies and nation-states.

Similarly, strategies of outsourcing can be seen as fragmenting the production process across several firms from an organisation of production point of view. However, such strategies will, at the same time, also integrate sectors and industries. Outsourcing can take place within and across nation-states. In the latter case, the integration or fragmentation due to outsourcing extends also to countries as we see with global value chains.

The TNC may thus be seen both as an agent of fragmentation of production but also as an integrator of activities across space, business organisations and countries. Its relational power vis-à-vis other actors derives from—and is linked to—this key dialectical feature.

A major fragmentation impact of localisation strategies—particularly in the international context—and of outsourcing strategies, pertains to labour and to strategies towards it. The workforce employed by the same firm and/or in parts of the same production process or in establishments tied by the same brand can be fragmented by strategies of localisation and/or outsourcing.

The fragmentation versus integration concepts can also be applied to labour itself and its organisation. There are several ways in which the labour force and its trade unions (TUs) can become integrated and/or fragmented. This process is, often, the result of the spatial or organisational fragmentation just discussed. It can also be the outcome of wider political trends and events. Conversely, the labour force and its TUs may often act as an integrating force that glues together several establishments and plants belonging to the same company or to it and its suppliers/distributors.

For example, the employees producing and selling McDonald’s food are fragmented by geographies—including those of nation-states—and by the organisational side of the business; that is, by the fact that most of McDonald’s business is via franchises. The responsibility for the employees appears to be, legally, with the franchisees separately from each other and from the McDonald corporation. The labour force is therefore fragmented both geographically and organisationally. However, the fact that the workers labour for the same brand and under similar working conditions generates common interests and bonds. In other words, there is potential for integration of the industry’s
labour force across countries and franchisees. In the context of McDonald, this potential has recently been exploited by labour. Similar situations have been reported in other industries. Doellgast et al. (2015) give other examples of successful union activity and mobilisation across production networks in several countries.

2.1 Geographical fragmentation: localisation/internationalisation strategies

By geographical fragmentation, we mean a situation in which production by the same company is located in a variety of spaces. The fragmentation is in relation to the total output and often the actual production process, whenever different stages of the value chain are located in different places. The fragmentation is also—and notably from our point of view—in relation to the workforce employed by the same company. The fragmentation can be with respect to the home country, that is, in different regions of the same country, or it can be in different countries.

There are spatial, cultural and socio/political dimensions to geographical fragmentation. The spatial dimension—that is, distance—affects costs of production and distribution. The cultural—including linguistic—dimension impacts on the ability to manage across different cultures and thus on costs. The cultural differences are likely to be higher across nation-states but may not be negligible even within the same country and specifically within Italy. The socio-political dimensions relate to differences in regulatory regimes on which more later. These differences are stronger across nation-states. However, some of them are present also within regions of the same country, particularly when labour market conditions differ considerably and industrial policies are specific to regions or devolved to them. This has been the case between the North and the South of Italy since World War II.

Internationalisation strategies have a variety of connotations ranging from sales abroad via exports to foreign direct investment (FDI) aiming at direct production of whole products or components; to access to suppliers’ networks; to alliances, joint ventures, licencing or franchising abroad; and to the internationalisation of the company’s culture via the appointment of managers and other—often technical—employees with international experience and knowledge. Locational strategies and internationalisation strategies in most of these connotations are part and parcel of the automobile industry in general including FIAT as we shall see below.

Different taxonomies of internationalisation strategies have been used in the international business literature. A relevant one, applied to the automotive industry, distinguishes between multi-domestic, macro-regional and global strategies (Bélis-Berguignan et al., 1994; Balcet and Enrietti, 2002). They differ according to geographical reach and level of intra-firm division of labour. Their potential for fragmenting the workforce employed by the company differs: macro-regional configurations and global configurations impact in a direct way on the bargaining power of the company vis-a-vis labour, by giving credibility to threats of relocation as we summarise in Section 6.

3 In May 2014, there was a significant mobilisation and protest in the industry involving workers from many US States and across franchisees arguing that McDonald and other fast food companies should take full responsibility for the workers employed by the franchisees. The US National Labor Relations Board (NLRB) decided in favour of the workforce (Ietto-Gillies, 2017).

4 In multi-domestic strategies, production serves national markets. Macro-regional strategies promote intra-group division of labour and integration of value chains at regional level. Global strategies integrate wider activities in more than one region.
2.2 Organisational fragmentation: outsourcing

Firms have always used external channels to secure supplies. The theoretical issue behind the dichotomy internalisation versus externalisation has been the object of many studies following Coase (1937) and is, usually, seen in terms of minimisation of transaction costs. On similar lines, the internalisation theory of the TNC sees international production as the outcome of the internalisation process at the international level (Buckley and Casson, 1976; Casson, 2018). In both cases, considerations of efficiency and equilibrium play a big role. We will, instead, take the view that strategic behaviour rather than equilibrium and efficiency-seeking is the driving force behind the decision by large firms’ CEOs to externalise or not. Moreover, our analysis is not static but based on a historical case study.

Outsourcing can be analyzed from a variety of disciplinary perspectives and take place in a variety of ways and modalities: via full arm’s length contracts or with partial or full ownership of the supplier firm, and short- or long-term contractual partnerships. Which modality is applied partly depends on the nature of the activity, and partly on what segment of activity is being outsourced—whether, for example, it is a knowledge-intensive activity or not. Similarly, the reasons for outsourcing and its effects may vary according to the activity being outsourced. Outsourcing has been a widely applied strategy in the automobile industry but the academic jury on its efficiency and contribution to profitability is still out: Zirpoli and Becker (2011) argue that companies ‘outsourcing too much’, such as FIAT in the 2000s, reduced their control on key technologies, with negative effects on performance.

2.3 Labour in the context of localisation and outsourcing strategies

The strategies of transnational companies towards labour have a variety of dimensions including pay and conditions, training, and long-term retention and replacement. Strategies are often contingent to local conditions—including labour market conditions—and specific to sectors and countries with their own industrial relations and social security regulations embedded in their history.

Ietto-Gillies (2019, ch. 15) argues that international production activities by TNCs can give companies considerable advantages. They derive from the existence of different regulatory regimes—that is, laws, regulations and customs specific to each country—in different countries. The regulatory regimes that are most likely to confer advantages to the company as a whole are the following: (a) fiscal regimes which allow companies to take advantage of different tax rates or custom tariffs in different countries; (b) currency regimes which allow taking advantages of current and expected changes in exchange rates; (c) regimes of industrial policy with diverse incentives for foreign investors and/or for investment in special regions; (d) regulations regarding environmental standards; and (e) rules and regulations regarding the social security system and, in particular, the different regimes regarding labour and its organisation.

It is on the latter issue (e) that we concentrate though occasionally we shall also touch on issues (a) and (c). Let us assume first a company whose production activities

---

5 Exposition and comments on the internalisation theory are in Ietto-Gillies (2019, ch. 9).
are largely concentrated within the same location. As the company grows and more labour force is employed, it becomes—ceteris paribus—easier for labour to organise itself. The increased workforce and the proximity of work enhance feelings of solidarity and make mobilisation, organisation and resistance easier. The pressure on the company’s management can be eased by one—or both—of the following strategies: (i) the externalisation of some activities via outsourcing. This would devolve responsibility for some of the workforce to another—often smaller—company. In most countries, the laws regarding labour organisation and resistance—such as strike action—tend to make it difficult or impossible for labour to organise across different ownership units. (ii) Keeping the activities within the same ownership umbrella but locating some of them in other countries. The company’s advantages of such a strategy derive from the following: in some cases, the location may be in countries with lower labour costs; in other cases, the host country may have stricter laws regarding TU activities and strikes. Even in cases where the labour regimes are very similar between the home and host country, the mere fact that the workforce employed by the TNC is now dispersed in more than one country lowers the solidarity among labourers and makes concerted action more difficult.

Localisation strategies do not always involve other countries; similar company’s objectives can be achieved by localising in different regions of the same country. This is whenever: (a) labour market conditions differ in different parts of the same country because the supply of labour—in relation to demand—and the levels of unemployment differ; (b) the availability of skills differ; and/or (c) the rate of unionisation differs for a variety of reasons, including historical and political ones. As a consequence, production may be shifted from traditional industrial clusters towards new, less unionised areas. We therefore consider, in this paper, all localisation strategies of which internationalisation is a very important sub-set. Both types of localisation strategies have been very relevant for FIAT throughout the post-WWII decades, as we shall see below.

The dichotomies of localisation and of externalisation versus internalisation are given in Table 1. In both cases—(i) internalisation versus externalisation strategies and (ii) localisation strategies—we have the potential for generating the fragmentation of labour either across firms/ownership units or/and across different localities. This result is achieved whether labour fragmentation is the main aim of the two strategies or not.

We therefore see the three strategic elements—outsourcing, localisation and industrial relations (IRs)—as closely interlinked: a position of strength and power on the part of labour may—ceteris paribus—incentivate strategies of internationalisation and/or outsourcing. In turn, such strategies may lead to the reorganisation of the company and of its labour force, and thus impact on the fragmentation of labour. It may also eventually lead to new, countervailing strategies by labour and its TUs. 

---

7 Berta (1998a, p. 151) notes how during ‘the autunno caldo’ (the hot autumn) in 1969 the FIAT factories with the highest strike records were the ones where the growth rates of labour force had been the highest.

8 On a similar issue, Galgoczi et al. (2007) produce a 2 × 2 matrix. They do not allow for localisation in other regions of the same country. This is in line with their home country perspective rather than that of the overall company as in our case. Our table was inspired by their matrix.

9 The dynamic moves and countermoves described in Talay and Townsend (2015) for innovative products and in Knickerbocker (1973) for FDI may apply also to the relationship between companies and labour.
Internationalisation, outsourcing and labour fragmentation

Table 1. Localisation and internalisation versus externalisation strategies

<table>
<thead>
<tr>
<th></th>
<th>In home country</th>
<th>Abroad</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internalisation</td>
<td>Production all</td>
<td>Direct production via FDI</td>
</tr>
<tr>
<td></td>
<td>in-house</td>
<td>(offshoring)</td>
</tr>
<tr>
<td>Externalisation</td>
<td>Outsourcing in</td>
<td>Outsourcing to foreign suppliers</td>
</tr>
<tr>
<td></td>
<td>single region</td>
<td></td>
</tr>
</tbody>
</table>

However, we do not consider that strategies of internationalisation and outsourcing are formulated and developed only in relation to labour. Many other elements enter into the development of a specific strategy: from elements related to markets; to rival companies and market shares; to scale economies, cost reduction, product quality or product diversification strategies; to the development and adoption of new technologies and to innovation in products and processes.

In particular, innovation in processes and the adoption of new technologies, including robots and automation, are the glue that links together the three elements in our investigations. Changes in the technology of the production process—and related organisational changes—are a key element in labour relations, particularly in the automobile industry. Moreover, the digital technologies create opportunities for outsourcing and also facilitate it by making quality control easier; they also support the internationalisation of segments of the value chain.

3. The system of industrial relations in Italy: a fragmentation story

We mentioned earlier that the categories of fragmentation and integration can be applied to labour as much as to production and the production process. We also emphasised the possible fragmentation of labour resulting from outsourcing and/or localisation strategies. These are not the only sources of labour fragmentation. A considerable source is to be found in the development of a variety of employment contracts with various degrees of (in)security. Many elements of fragmentation affecting IRs have roots in the social and political history of countries and in the evolving structure of their economies. Here, we shall concentrate on Italy and on FIAT, in particular. The post-World War II system of industrial relation in Italy can be seen as characterised by the fragmentation of labour itself, of two types as detailed below.

3.1 Institutional pluralism and TUs fragmentation

The traditional TU in Italy had been the Confederazione Generale Italiana del Lavoro (CGIL) founded in 1906. Within it, the Federazione Impiegati Operai Metallurgici (FIOM)—established in 1901—deals with the automotive sector. CGIL and FIOM have been associated with the communist and socialist parties. The Mussolini period

10 There is, for example, considerable fragmentation also on the employers’ side in Italy where we see a large number of ‘sector/branch peak federations’ (Leonardi et al. 2017, p. 6).
saw the formation of fascist associations of workers within firms as well as the eventual drive out of the CGIL which was reconstituted in 1944 following the fall of fascism.

In 1950—after a period of industrial conflicts—two further major TUs were established and rapidly gained membership and influence: (i) the Confederazione Italiana Sindacato Lavoratori (CISL) founded as a splinter group from the CGIL by catholic workers; and (ii) the Unione Italiana Lavoratori (UIL). The former is the largest of the two and has been associated with Democrazia Cristiana (DC), the leading political party of the post-World War II decades. The latter was associated mainly with the Partito Socialdemocratico Italiano (PSDI) and, to a lesser extent, with the Partito Repubblicano Italiano (PRI). Smaller unions have emerged from time to time, including also ‘independent’ ones such as FISMIC (Federazione Italiana Sindacati Metalmeccanici and Industrie Collegate) which originated in the 1950s as a splinter group from CISL and grown in size and scope. The competition for members as well as the different conceptual and political roots of the three main TUs in Italy have often been exploited by the employers’ side.

3.2 Level negotiations and geographical fragmentation

On the employers’ side of the negotiating table sit sector representatives of the Federmecanica within Confindustria, the employers’ association founded in 1910. In the last few decades and up to 2010, the accepted practice within the general TU versus employer system of negotiations has been to start social dialogue at the highest level of representatives of Confindustria and of all TUs. They meet to set out the basic national parameters within which two levels of negotiations take place.

**Level 1.** Sectoral negotiations between Federmecanica/Confindustria and corresponding TUs to set the parameters and conditions for all the firms and establishments in the sector. Many outsourcing firms operate in the same sector as the principal firm to which they are contractually linked and this leads to integrating elements at corporate level, that is, between the principal (FIAT) and its suppliers.

**Level 2.** Firm-level negotiations. They do not involve Confindustria. For larger firms, such as FIAT, some of the negotiations are establishment-specific. This gives scope for different settlements according to the geography of the establishment.

This brief summary on the structure of industrial relations in Italy shows that the system of IR in Italy has both fragmenting and integrating features in relation to labour and specifically the following. (i) The multiplicity of TUs and their political allegiances act as fragmenting force. (ii) The second level of negotiations has a more fragmenting effect across: establishments of the same firm (such as FIAT) in different localities;

---

11 The DC has been dissolved in the 1980s and many of its members have joined other parties such as the newly constituted Forza Italia led by Silvio Berlusconi.

12 On the dangers for workers and the TU movement of institutional fragmentation and rivalries by TUs, see Berta (2011, pp. 128–36). These dangers were also highlighted by Michele de Palma of FIOM during the informal interview with G I-G in Rome on 19 May 2015.

13 This section has greatly benefitted from discussions with Salvo Leonardi and from material he made available to us.
the principal and its suppliers; and different suppliers. (iii) The basic framework setting and Level 1 negotiations integrate as they secure minimum standards across the country and sector. This may lead to more vertical integration than in countries with firm-level only negotiations. However, this conclusion holds under ceteris paribus situations. In practice, the situations regarding size of firms or working conditions may be different.\footnote{14 We are grateful to a referee of this journal for pointing this out to us.}

It is in the context of these theoretical and historical backgrounds that we now turn, more specifically, to our case study: the FIAT.

4. FIAT: historical background

Founded in 1899, FIAT was up to World War I, a small-scale producer of vehicles for a restricted market of wealthy clients. From its beginning, it was a family-owned firm controlled by the Agnellis. No doubt this helped the family. However, it also helped the development of the company because the family favoured long-term strategies.

The company came close to bankruptcy during the 1907 financial crisis (\textit{Castronovo, 2005}). However, from 1908 when Giovanni Agnelli took control, FIAT developed more ambitious aims. One of Agnelli’s first initiatives was to visit the Ford factories in Detroit, USA. Ford’s newly introduced mass production system became Agnelli’s ambition and a lasting benchmark for FIAT. From then on, he promoted a sort ‘cultural internationalisation’, aiming at learning from American managerial practices.\footnote{15 We are grateful to Cesare Annibaldi for giving us insights into this issue.}

However, internationalisation was much more than a cultural/managerial aspiration. It became the essential, other-side-of-the-coin in the Fordist production method, as mass production requires large markets. Thus growth and large-scale production became interlinked with changes in production methods and with internationalisation strategies.

A new huge factory, Lingotto, opened in 1923 in Turin and in 1929 the Tayloristic Bedaux system of production was introduced (\textit{Musso, 1999}). In 1939, a gigantic plant opened at Mirafiori, Turin. The total number of FIAT employees increased from 21,000 in 1930 to 48,000 in 1939, when Vittorio Valletta—a follower of Fordist principles—was appointed CEO. He was to become a major actor in the post-war booming years.

Growth in the home market was achieved by targeting medium-income consumers with affordable small cars.\footnote{16 The 508 Balilla model launched in 1932 was followed in the late 1930s by the 500 Topolino, produced till the late 1940s.} Exports—FIAT’s first internationalisation modality and by far its most important for decades—became the essential element in mass production. They represented almost 50\% of production in 1914 and almost 70\% in 1922, declining to 59\% in 1931 and to 34\% in the late 1930s, under the effects of sanctions by foreign countries against the fascist regime (\textit{Volpato, 2004}, p. 139).

Industrial relations at FIAT were shaped by the political context of Italy and, conversely, they affected the landscape of IR in the country. The establishment of an employers association started in 1906 with the \textit{Lega Industriale di Torino} which evolved into a national association—\textit{Confindustria}—in 1910. A sectoral, national association—AMMA (Aziende Metallurgiche Meccaniche Affini)—followed. Two main elements led to these employers’ associations, all backed by Giovanni Agnelli: the perceived need
to respond to the establishment of FIOM (1901) and CGIL (1906); and the attempt to curtail the practice of employers’ bidding against each other for skilled labour.

However, by 1921, the economic conditions had dampened the bargaining power of labour and employers began to be nostalgic about firm-level bargaining. In the early 1920s—following a period of great conflictuality—some employers opted out of joint negotiations and of national contracts, including FIAT which instituted firm-level negotiations. The association of employers was re-established after World War II as Confindustria.

5. FIAT: four post-World War II periods

5.1 Premise

The key historical elements emerging from the previous section and relevant for our analysis of the post-World War II periods are the following. (i) From its very beginning, FIAT had an international outlook based mainly on exports. (ii) Contrary to internationalisation, outsourcing was definitely not part of FIAT’s history. For a long time, up to the 1960s, FIAT operated largely as a vertically integrated company with very little outsourcing. (iii) Throughout the twentieth century and the first 15 years of the twenty-first century, FIAT played a see-saw game in relation to the employers’ association that the Agnelli family had helped to create. From the unifying role played in the second decade of the twentieth century to the disaggregating role in 1925. Again a unifying role was played in post-World War II Italy till the recent Marchionne’s exit strategy on which more later. (iv) Up to the 1950s, the institutional TU context in Italy was dominated by the CGIL with its FIOM arm for the metal manufacturers and thus the automobile industry. After World War II, the emergence of CISL, UIL and FISMIC signals a political break and a weakening of union power. (v) Mass production was, at first, concentrated in the Piemonte area. However, in post-World War II, the localisation strategy within Italy changes substantially.

Our analysis of the four periods is not a history of the company in those periods but an excursion into the main elements of interest to us set in the wider company’s context mentioned at the beginning of each period. Fragmentation versus integration is the key interpretative element in our analysis. We shall consider, specifically, (a) the fragmentation due to localisation (including internationalisation) strategies (see Table A1); (b) organisational fragmentation, that is, due to outsourcing strategies; and (c) the fragmentation due to institutional changes within the TUs as well as in the system of bargaining with employers.

The four chosen periods are: from the end of the World War II to 1968, from the late 1960s to 1980, from 1981 to 2003 and from 2004 to 2016. The choice of periods is informed by key events in the life of the company and its context. The periodisation must be seen within the continuity of conditions and the lasting effects of previous strategies.

17 However, under fascism it soon became clear that only Fascist associations would be tolerated. See Musso (1999, pp. 180–86) on these issues.
18 In an interview with Giuseppe Volpato reprinted in Volpato (2004, pp. 445–67) Agnelli notes that the supply industry was not much developed in Italy as a separate sector from the main producers.
19 We are grateful to Giuseppe Berta and Salvo Leonardi for their comments on our choice of periods.
5.2 From the end of World War II to 1968

From the late 1940s to the mid-1960s, mass production is driven by a booming domestic market which is also protected and quasi-monopolistic: 78% of total Italian car sales in 1968 were by FIAT. The fast-growing Italian average income shapes demand and directs production towards small- and medium-sized cars, while successive Italian governments support FIAT by investing heavily in infrastructures, mainly roads and highways. The firm invests in expanding productive capacity and in new fordist production systems. Its innovation activities—not always captured by R&D expenditure—were often non-codified and informal.20 The years 1962–68 saw considerable changes in FIAT. The younger Giovanni (Gianni) Agnelli became CEO in 1966. He started a gradual process of reorganisation at various levels whose effects would be felt in the following decades: from the internal structure of the company—which moved towards a multi-divisional system—to new strategies on the location and the outsourcing of production, and to the reorganisation of the distribution network. Nonetheless, the influence of the Valletta strategies continued for some time.

5.2.1 Localisation strategies. At the beginning of the period we are analysing, production was highly concentrated in the Turin area where to the Mirafiori plant was added one in Rivalta in 1967.21 At the international level, exports resume and grow after the decades of fascism and war. They represent 22.6% of total sales in 1950, growing to 32.0 in 1955 and to 39.7 in 1960 (FIAT Archivio Storico, 1996, pp. 129–31). Other modalities of internationalisation are gradually introduced with the main aim of gaining access to foreign markets and increasing market shares. They include the following: acquisitions (SEAT in Spain in 1953); greenfield FDIs (FIAT Concord in Argentina in 1960); and long-term industrial cooperation agreements and joint ventures (in Yugoslavia in 1954, the Soviet Union in 1966, Poland in 1971 and Turkey in 1972).

5.2.2 Organisational strategies. The post-World War II period sees a continuation of the vertical integration strategy typical of the company in the pre-war decades. Most components are produced in-house. This feature distinguishes FIAT from competitors which were substantially involved in outsourcing (Volpato, 2004, p. 280). Nonetheless, during the 1960s, a cluster of first-, second- and third-tier suppliers rapidly develops in the Turin area and in north-western Italy.22 Now and throughout FIAT’s life, some suppliers are legally autonomous though owned by FIAT and/or the Agnelli family.

5.2.3 Industrial relations. The end of the war leaves a traumatised and divided Italy whose people are dissatisfied with both their past and present. The years from 1943 to 1949 see large waves of political, insurrectional strikes as well as strikes related to specific conditions within industries and firms. In 1955, there is a crashing defeat of

20 We are grateful to Stefano Musso for giving us insights into this issue.
21 As Berta pointed out in our interview, in the mid-1960s the Italian government tried to convince FIAT to locate the new plant in a Southern region, but without success.
22 First-tier suppliers provide carmakers with parts, components and sub-systems, or ‘modules’, and are involved in co-design with them; second-tier firms provide first-tier suppliers with single components; and third-tier suppliers provide second-tier ones within complex value chains.
labour within FIAT, a defeat that experts later consider too heavy even for FIAT’s long-term interest.23

In terms of its bargaining power, the labour force comes out the loser from the post-war struggles. FIOM is defeated and marginalised in the mid-1950s, partly as a result of the establishment of CISL and UIL (see Section 3). Thus, the fragmentation of labour in this period has a political and institutional basis. Moreover, there is also a social basis to it. Much of the new workforce employed by FIAT in the Piemonte region comes from the poor South: Volpato (2004, p. 71) gives at 75% the non-Piemontese workforce at Mirafiori and Rivalta in 1967. At first, the new labourers prove a very compliant workforce. They have moved to a distrustful and difficult environment in which many local people do not want to associate with them.24 Moreover, the established labourers of the North resent this influx of more pliant workforce which is keeping their wages in check. There is also mutual difficulty in understanding very different dialects. This large influx generates social as well as individual problems: education, housing and transport services struggle to cope.

Labour relations progressively change from the early 1960s onwards: the almost full employment in Italy, the extension of mass production at FIAT, the geographical concentration of production in the Turin area, the memories of earlier struggles and losses all combine to build up power and resentment in the workforce (Berta, 1998). Moreover, the labourers from the South gradually integrate and, eventually, the Torinese and Southern workers come to see each other as mates rather than enemies, preparing to struggle together. The previously divided TUs begin in a weak position; however, they soon learn to collaborate around the growing tensions and dissatisfaction and thus prepare for the turning point that takes place at the end of the decade. Their bargaining power gradually increases.

In terms of our fragmentation story, we notice the following. The post-World War II period is one in which the degree of fragmentation of production is very low both in terms of geographical fragmentation and in terms of organisational fragmentation (via outsourcing). Specifically, (a) there is a large degree of vertical integration. (b) As we suggest in Section 3, the sector-level negotiations—which include both FIAT and many of its suppliers—may have contributed not only towards a high level of internalisation but also towards homogeneity of wages and working conditions. (c) In terms of localisation strategies, production is very concentrated in the North of Italy and internationalisation via exports increases the spatial concentration because the products to be sold abroad are produced at home. This high degree of geographical concentration as well as internalisation of production do not, at first, lead to a strong labour force and TUs as one might have expected. However, the seeds of change are sawn in this period.

5.3 The years 1969–80

In this period, FIAT consolidates its oligopolistic power in the still-expanding domestic market, supported by the State’s industrial policies. It also overcomes the impact

---

23 Berta (1992, quoted in Volpato, 2004, p. 74) writes: ‘In 1955 FIAT won; but it won too strongly, perhaps even for itself. In order to subdue FIOM it has ended by undermining the ability of action and negotiation of TUs tout court, in any form’.

24 Griseri (2012) cites the widespread appearance of notices on houses available for rent: ‘Non si affitta ai meridionali’ (‘Not for let to southerners’).
of the oil crisis which hits the company very badly. Its management decides to move to energy-saving engines, including diesel which becomes an area of endogenous innovation and excellence in the following decades. In this period, State aid strongly supported the restructuring process through financial incentives in the context of industrial and regional development policies; it also supported R&D and professional training (Germano, 2009, pp. 157–77).

However, the process of European economic integration progressively erodes FIAT’s quasi-monopolistic position in Italy, as other manufacturers based in Europe expand their sales in the country. The market share of FIAT brands in Italy declines from 54.4% in 1973 to 44.6% in 1982 (Volpato, 2004, p. 152).

5.3.1 Localisation strategies. Within Italy, production is still very concentrated in the Turin area. A labour-to-capital growth strategy continues to attract massive internal migration flows from the South. However, in the early 1970s, for the first time, new FIAT factories open in Southern Italy (in Termini Imerese and Cassino, see Table A1) aided by State’s incentives for regional development.

At the international level, we see a general move towards increase in direct production via FDI either to source domestic or regional markets or to take advantage of special conditions and support by host governments and/or to overcome their protectionist policies. Domestic market-oriented FDIs (Table A1) take place in Brazil (1972, greenfield) and Turkey (1972, in joint venture with a local private group). Long-term industrial cooperation with a State-owned enterprise is launched from the early 1970s onwards in Poland. Production volumes in these foreign operations are generally low, but protected markets allow good financial performances. Nonetheless, the Brazilian subsidiary reports losses for several years, before turning to profits and expanding its market share in the area. In Poland and in Turkey, as in Brazil, production is aimed mainly at domestic protected markets. These multi-domestic operations (Balcet and Enrietti, 2002) may not have an immediate impact on labour relations in Italy. However, they sow the seeds for possible future export-substituting operations. Moreover, they add to the credibility of threats of further offshoring and thus weaken the bargaining power of labour.

5.3.2 Organisational strategy. In this period, the company restructures contracts and relationship with its distributors. FIAT is still heavily vertically integrated in terms of both suppliers and distributors. However, in his interview with Volpato (2004), Giovanni Agnelli states that in those years FIAT started to develop a longer-term strategy of increasing outsourcing and having more arm’s length contracts with future suppliers. Indeed, the evolution from a highly vertically integrated and spatially concentrated model of production towards strategies of organisation and localisation fragmentation is associated with Giovanni Agnelli’s approach, in contrast with the previous Valletta strategy.

5.3.3 Industrial relations. This whole period is characterised by intense social conflicts in FIAT as well as in the Italian industry and society in general. Conflicts explode during the ‘autunno caldo’ of 1969: a year in which the ratio of strike hours to the full potential of work hours reaches 6.31 by far the highest of the decade. Radical
activists—external to the workforce and the TU movement—begin exercising an impact not only on political life and institutions but also on the day-to-day management of FIAT. There are many episodes of physical threats and violent actions against managers as well as sabotage via sudden, wildcat actions in production lines.

Thus, the bargaining power of labour and its TUs becomes strong and FIAT agrees to demands for higher wages and better working conditions. Meanwhile—and as a reaction to IR conflicts (Berta, 1998)—it invests heavily in process innovation and automation, including the use of robots in the production line.

Relational power between workers and FIAT dramatically change in favour of the latter in October 1980. White collar workers react to a prolonged 35-day-long strike, promoted by TUs in Turin against a mass layoff. The ‘marcia dei quarantamila’ (‘march of forty thousand’) white collars against TU strategies is seen as a turning point in labour relations (Musso, 1999, p. 224).

5.4 The years 1981–2003

The strategies of this period have roots in the conflicts of the previous decade. The main one centres around full automation and Total Quality Management with emphasis on team work. In 1986, the Termini Imerese and later Cassino factories were designed as FAA (Fabbrica Alta Automazione, High Automation Factory). Moreover, in the 1990s, the CEO Cesare Romiti promotes a strategy of diversification of the FIAT Group, reducing the weight of the automotive production. In the same years, an ambitious and costly project of producing a world car for emerging and developing countries does not succeed, leading to huge financial losses. Between 2001 and 2002, FIAT appears close to bankruptcy and, for the first time in their history, the Agnelli family runs the risk of losing control of FIAT to its creditors, the banks. The end of State aid to FIAT as a national champion acts as a stimulus to internationalisation.

5.4.1 Localisation strategies. Within Italy, FIAT expands via the domestic acquisition of State-owned Alfa Romeo in 1986. However, the big story of this period is a large greenfield investment at Melfi in Lucania, Southern Italy, where production starts in 1992. By 2000, the Melfi plant is the largest in Italy. It applies the Toyotist model leading to just-in-time organisation of the supply chain and to new industrial relations involving employees in quality improvement. The investment can be seen as greenfield in a variety of meanings: because of the selection of site; because of the new industrial relations it is able to implement, aided by the fact that the new site starts with fresh workforce; and because the establishment is set up as an autonomous legal entity (SATA, Società Automobilistica Tecnologie Avanzate), thus able to operate—to an extent—independently of its ultimate owner, FIAT. Very large incentives are granted to FIAT by the Italian government in the context of industrial and regional development policies. Germano (2009, p. 184) estimates that State expenditure—as direct aid and as infrastructure investment—amounted to 39% of the Melfi investment by FIAT.

However, in the following years and decades, support from the Italian State is no longer possible under the new European competition policies, issued in 1989 and strengthened in 1997. In 1991, the EU Commissioner Leon Brittan reacted against the Italian State aid for the Melfi establishment.
limited the scope for industrial policies. After 1992, State aid to the automotive industry dramatically fell (Germano, 2009, table 6.2, p. 180) and this greatly affected FIAT’s localisation strategies in Italy and internationally.

Moreover, in Eastern European or Mediterranean non-member countries, low wages and access to new expanding markets were coupled with large incentives granted to FIAT (e.g. in Turkey in the early 2000s, or in Serbia in 2008). In 1986, the new Cinquecento sub-compact car is produced in Poland for the whole European market (Italy included). Following the privatisation programme in Poland, FIAT takes over the Polish partner in 1993.

In 1995, FIAT invests in an ambitious project of a world car for emerging and developing countries. It fails for various reasons including the 1998 collapse of Mercosur. As a by-product of this, a huge greenfield investment in Argentina (1995) produced heavy losses in the late 1990s and early 2000s. The 1980s see also divestments abroad as FIAT withdraws from Spain and Latin America with the exception of Brazil. In 2000, a strategic alliance is set up with GM and FIAT gets a put option for selling its shares to GM in 2004. The alliance ends in 2005.

The increased pace of internationalisation in this period is affected by—and affects—the company’s bargaining power with labour. In a significant anecdote, the CEO Cesare Romiti used the threat of relocating in Portugal unless the TUs accept a worse contract for the Melfi establishment than for the others (Griseri, 2012, p. 49).

5.4.2 Organisational strategies. This period is characterised by increase in outsourcing leading to a reduction in the number of employees in FIAT Auto (Volpato, 2009). There is a decline in the percentage of in-house production from 38 to 28 between 1987 and 2000 (Volpato, 2004, table 21, p. 280). The 1990s see outsourcing extending even to innovation and product design. Of the latter activity, 72% is supplied externally in 2000 (Volpato, 2004, table 22, p. 281).

This trend represents also a reaction to conflicts with labour and is consistent with a widespread view on the benefits of externalisation, dominant at the time, even when it was not empirically justified in terms of costs or quality (Musso, 1999).

FIAT’s strategies affect the localisation of outsourcing: first-tier and sometimes second-tier suppliers were induced to follow their client in new locations. We have also several cases of suppliers located next door to—or, indeed, within—the very FIAT compounds. Within the Melfi plant a supplier park is established, while several Italian or transnational suppliers invest in Poland, Brazil and Turkey next to or in the same compound as FIAT plants (Balcet and Enrietti, 2002). These locational strategies highlight two important elements. (a) Spatial proximity is important for just-in-time deliveries, costs and quality control. (b) Suppliers’ autonomy is relevant to the negotiation of contractual differences between the workforce employed by FIAT and the one employed by its suppliers. Hence, the establishment of some suppliers with legal autonomy though owned—fully or partially—by FIAT.

Major restructurings of suppliers’ networks take place. During the 1980s, in-house production of components is reorganised in three subgroups of suppliers: Magneti Marelli, Gilardini and Teksid. In the 1990s, the company moves towards dealing directly with fewer suppliers who can, in turn, subcontract to second-tier and third-tier

26 This point was highlighted by Maurizio Magnabosco during our interview.
suppliers. The total number of direct FIAT suppliers declines from 1,200 in 1987 to 330 in 2001 (Volpato, 2004, p. 282). In its outsourcing strategy, FIAT seems torn between the need to cut costs and the need to secure quality. The first requirement pushes towards relationships with many competing suppliers be they Italian or international. The second requires long-term relationship to secure high-quality and timely planning, particularly when the outsourcing relates to design and high-level work. Management tries to tackle the trade off costs versus quality by offering long-term contracts to main suppliers who can both secure quality and contain costs.27

5.4.3 Industrial relations. FIAT’s increased power towards labour, which started in 1980, continues in the early 1990s. The Melfi greenfield plant is, at first, successful in reducing workers’ bargaining power and implementing new industrial relations. This success is, to a large extent, due to the siting of the plant in an area characterised by high unemployment and high number of young high-school graduates. However, within a few years, in the late 1990s and in 2004, industrial conflicts erupt on the back of working conditions and wage differentials compared with the FIAT workers in Northern Italy. Suppliers’ workers are also involved in strikes.

Both localisation and outsourcing strategies highlighted above had fragmenting effects on labour with impact on its bargaining power. The following conclusions can be drawn from the 1981 to 2003 years. (i) There has been geographical fragmentation of production particularly with the development of the Melfi plant within Italy and with the considerable expansion abroad. Whatever the underlying motivations behind localisation strategies, geographical fragmentation and, in particular, offshoring, increase competition between labour in different locations within the FIAT group as well as giving credibility to threats of relocation. (ii) Large-scale organisational fragmentation has occurred via increase in outsourcing at both the national and international levels.28 Nonetheless, the organisational fragmentation does not seem to have a huge impact on the bargaining power of the workforce. This may partly be due to some integrative elements within the Italian IR context, specifically the following. At Level 1, as well as at the stage of overall framework setting of negotiations, the workers’ representatives of FIAT and of its suppliers in the same sector bargain together.

5.5 The period 2004–16

In 2004, the Canadian-Italian Sergio Marchionne29 is appointed FIAT’s CEO. In 2005, he closes the deal with GM on favourable financial terms for FIAT. In the same year, FIAT recovers to profits. In 2009, he reaches an agreement with the Obama administration and with the United Automobile Workers (UAW) to take an equity share in Chrysler, which is in the process of bankruptcy. The deal is based on an exchange between equity and technology (energy-saving engines and a platform for smaller cars). Starting with a 20% share, FIAT reaches a majority control of Chrysler

27 However, Volpato (2004, pp. 279–85) thinks that the pendulum shifted too much towards the attempt to cut costs and that not enough weight was given to long-term quality issues.

28 The concept of fragmentation could also apply to suppliers in that they differ in size, location and ownership arrangements with the principal as pointed out to us by Francesco Garibaldo.

29 Sergio Marchionne died on 25 July 2018 having accomplished the task entrusted to him by the Agnelli family.
in 2011 and full control in 2014. A merger follows which establishes FCA (Fiat Chrysler Automobiles) with corporate headquarters in the Netherlands and fiscal headquarters in London. Managers with international experience are appointed in the new group.

The introduction of the World-Class Manufacturing (WCM) system in all FIAT and Chrysler plants makes it possible to compare costs and performances worldwide (Balcet et al., 2013). This starts a process of benchmarking across all FCA factories (Garibaldo, 2008). Product development strategies shift towards premium vehicles, a move away from the traditional FIAT specialisation such as the new Cinquecento produced in Poland. However, R&D expenditure is still too limited compared to that of FIAT’s main competitors (Volpato, 2009, p. 303).30

5.5.1 Localisation strategies. The period sees a considerable decline in production within Italy. The total of passenger cars and commercial vehicles reaches 658,206 units in 2013 from 904,500 in 2006 already down from the 1,701,256 in 1999. In 2016, it partly recovers to 1,103,516 units (Organisation Internationale des Constructeurs Automobiles [OICA], 2018). The southern establishments are particularly affected: the Termini Imerese plant is closed down in 2011; the Pomigliano d’Arco plant is substantially restructured in 2008–11 in order to produce a sub-compact segment A model—Panda—previously produced in Poland. Production sharply declines also in the historical Mirafiori establishment. This trend is largely due to bad macro-economic performance of the country affecting demand but also to offshoring on the supply side.

The reduced involvement within Italy is, in fact, mirrored by more international involvement of which the most transformative operation is the merger with Chrysler. In Brazil, the Betim factory—near Belo Horizonte—with 9,400 employees becomes the largest FIAT factory: in 2014, it produces more vehicles than all the Italian plants together; moreover, the affiliate FIASA (FIAT Automóveis Sociedade Anónima) emerges as a key profit-making production pole. However, successive new direct investments in India (in alliance with Tata Motors) and in China (in joint venture with the State-owned GAC) give modest performances. In 2008, FIAT acquires its former industrial partner in Serbia, Zastava. In 2012, a new platform is launched, for the production of a family of car models in the medium-high C segment in Europe, the USA and China.

5.5.2 Industrial relations. In 2004, there is a strike at the Melfi plant on issues of work organisation including shifts. Moreover, the re-shoring from Poland of the Panda model in Pomigliano becomes the occasion for changes in IRs in 2009–10. Following strong disagreement between FIAT and TUs—particularly FIOM which, unlike the other TUs, refuses to sign a new proposed contract—in 2010 Marchionne starts implementing what has been defined as a strategy of greenfield (‘prato verde’) industrial relations (De Luca Tamajo, 2015, pp. 101). In a daring move of financial engineering—clearly designed to fragment the labour force and its TUs—he first demerges the FIAT plant in Pomigliano d’Arco: the establishment is closed down

30 Bubbico (2014, pp. 21–23) reports FIAT’s R&D expenditure as percentage of turnover in 2011—3.7—as ranking 12th among the world motor manufacturers. According to FCA website, this figure grew to 3.9 in 2017.
and re-opened under a new name, Fabbrica Italia Pomigliano (FIP). The workforce is dismissed at the closure of the old establishment and re-employed by the new one with a new contract: or rather most of the workforce is re-employed. The vast majority of the ones who are not, belong to FIOM. In phase two of the strategy, the same contract, less favourable to the workforce, is proposed in other establishments—it is eventually signed by all TUs except FIOM. However, the pre-existing contracts had been signed earlier under the Confindustria intermediation. Therefore, the signing of the new firm-level contract can only be done by FIAT withdrawing from Confindustria and the CCNL (Contratto Collettivo Nazionale di Lavoro) framework: it does so with effect on 1 January 2012. Thus, Marchionne removes FIAT from the employers’ association after 60 years of cooperation and direct involvement as we saw in Section 3. Giovanni Agnelli had been instrumental to the development of the original association in 1910; moreover, in 1974–75, his grandson Gianni became President of Confindustria. This withdrawal creates the conditions for separate bargaining by suppliers and principal, therefore for further fragmentation of its labour force.

The Marchionne strategy unleashes deep conflicts between FIOM and FCA. Conflicts spill over to the TU movement itself, specifically between FIOM and the other TUs more pliant to the demands of management. Conflicts erupt also between Marchionne and Confindustria because the latter’s role as intermediary in negotiations has been challenged. Many see the possibility of changes throughout the Italian system of IRs. However, to date, other large firms do not appear to want to withdraw from Confindustria and the CCNL.

5.5.3 Key elements of the Marchionne strategy. In terms of our narrative, there are two connected, key stories in this period. The first one relates to internationalisation: FIAT moves from being an Italian company to becoming a fully global one. This is achieved via (a) the merger with Chrysler and FIAT disappearing under the banner of FCA, (b) benchmarking of performance across production in different countries, (c) relative decline of home production in favour of foreign one and (d) appointment of managers with international experience.

The second story relates to IRs and sees FIAT/FCA’s CEO opening a new era for Italy’s industrial relations. Specifically, (i) Marchionne applies a global IRs strategy in which FCA achieves downward convergence of pay and conditions across its global business establishments. This is done by a sequence of negotiations in which FCA first negotiates favourable conditions in the location/establishment where the labour force is weakest. It then takes the outcome of these negotiations as a benchmark for negotiations in other parts of the company. In Italy, we see within the company, uniformity of contracts across the country albeit with downward convergence. (ii) The international position is also used to set Polish workers against Italian ones, an echo of Romiti’s threat to relocate in Portugal (see Section 5.4). Southern Italian workers are set against those in the North, as in earlier decades. (iii) The strategy generates discord within the TU movement: CISL, UIL and some minor TUs delegates accept

31 FIAT production abroad as percentage of its worldwide production moves from 9.9 in 1990 to 52.8 in 2006 to 79.2 in 2016 (OICA, 2018).
the FIAT conditions while FIOM remains isolated. TU institutions are divided and not just FIOM versus all the others; within the TUs of ‘Yes’, there are many disagreements on aims and strategies. All this has a big impact on TUs institutions as political and union fragmentation works in favour of FIAT. (iv) Marchionne’s withdrawal from Confindustria has shaken the employers’ association and the move from national and sectoral to firm-level bargaining may impact on other sectors and firms. (v) As well as eliminating the intermediation of Confindustria, FIAT has also cut down on general intermediation in IRs: management often talks directly to the workforce without intermediation by TUs (see Berta, 2015)

6. Summary and conclusions

The paper concentrates on the following elements of TNCs’ strategies: localisation of production both within and outside the home country, internalisation versus outsourcing, and industrial relations. These three elements are analysed in terms of their interlinks and the fragmentation effects of the first two specifically those on labour. Moreover, we consider how fragmentation can also take place via institutional and legal elements pertaining to labour (Section 3).

The theoretical analysis developed in the first three sections is applied to FIAT in Sections 4 and 5. Four post-World War II periods are identified and the strategies analysed in the context of some wider firm, industry, country and world developments. Here is a summary of our findings.

The first decades after World War II are characterised by the highest level of geographical concentration of production—in the Turin area—and by almost full vertical integration of production. International operations are, mainly, confined to the export modality. The need to secure the necessary labour supply is met via a strategy of ‘labour-to-capital’, that is, via immigration from the South of Italy. The geographical concentration of labour might have facilitated its organisation and led to strong bargaining power. However, this was not the case for various reasons, including the memories of labour’s crushing defeat after World War II which made the workforce pliant. Moreover, labour was fragmented by the cultural divide between the northern and southern workforce and by a TU movement increasingly divided as splinter groups of workers leave FIOM to establish two more moderate Unions.

However, as Northern Italy approaches full employment, the situation changes and the concentration of production combined with vertical integration gradually strengthens the power of labour. There follows a change in FIAT’s strategies. In terms of localisation we see: a move towards a ‘capital-to-labour’ strategy within Italy and thus large investment in the South of Italy; at the international level FIAT starts programmes of FDI. In terms of organisation of production, we see considerable outsourcing. Moreover, FIAT invests in process innovation and automation, substituting labour with fixed capital.

The 1980s are also a decade of great reorganisation and increase in the suppliers’ network. Outsourcing increases steadily from now on, reaching 72% of costs in the year 2000 (Section 5.4). From October 1980, bargaining power shifts in favour of FIAT under the pressure of labour fragmentation resulting from both localisation and externalisation strategies.
The last period—from 2004 onwards—sees the most dramatic changes in the history of the company, leading to the disappearance of FIAT under FCA (FIAT Chrysler Automobiles). The localisation strategies favour foreign countries; Italy, which used to be home to most of FIAT’s production for decades pre- and post-World War II, is no longer the most relevant location.

The most important strategies of this period are directly aimed at the labour force and IRs. They range from financial engineering in order to negotiate employment contracts favourable to FIAT, to securing downward convergence in pay and conditions throughout the FCA global establishments. All this leads to discord among related institutions from the TUs to the employers’ association.

What conclusions can we draw from our overall historical analysis in terms of the relationship between strategies of localisation, including internationalisation, outsourcing strategies and labour fragmentation? As regards strategic behaviour, we would like to point out the following: (a) We have seen a historical context of moves and counter-moves between the company and its labour force—via the TUs—leading to dynamic changing situations. (b) Fragmentation strategies (both geographical and organisational) are affected by several drivers, including the trajectories of technological innovation. (c) We do not know whether there was intentionality towards the fragmentation of labour in the CEOs’ strategic behaviour as researchers do not have access to discussions at Board level. Nonetheless, three pieces of evidence point towards ex-ante planning of localisation at the international level and of outsourcing as reaction to conflicts with labour. (i) In the early 1990s, the then CEO Cesare Romiti threatened relocation in Portugal of the Melfi plant unless the Unions accepted his conditions (Section 5.4). (ii) More recently during the round of negotiations in Pomigliano, the company stated that its 700m euro investment could go either to Poland or to Italy according to what contract the Unions were prepared to accept (Section 5.5). In the latter case, this became a very decisive argument for all the Unions around the negotiating table except FIOM. (iii) In Section 5.5, we saw how the strong international position of FCA has been used by its CEO to negotiate and secure downward convergence in working conditions within Italy and across the world.

Looking back at the post-World War II decades it seems to us that—for certain aspects of IRs in the XXI century—we are back to...the past. Then as now the TU movement is divided and the individual Unions are scrambling for members, while workers are pitted against each other: then it was workers from South and North Italy; now it is Italian versus Polish or Serbian workers. Marchionne’s internationalisation and labour fragmentation strategies have given a big blow to labour and its TUs and to the long-established Italian system of IRs. The TU movement emerges divided and weaker. This may be seen as a victory for capital and, in many respects, it is. However, such victories may rebound; as we saw in the 1960s and 1970s, a defeat that is too crushing for labour may not be in the long-term interest of corporate governance.

What else can the past tell us about possible future developments? The decades we studied tell us that the balance of forces between capital and labour change according to the evolving institutional, political, macro-economic and technological conditions. It is not fanciful to predict that labour, now crushed, will at some point regain

32 Threats of relocation are certainly not specific to FIAT and, indeed, sometimes a company can use the argument that it expects concessions from TUs or governments such as have been obtained in other companies or sectors in a self-reinforcing process (Galgoczi et al., 2007, p. 23).
momentum and power. But how? What strategies are open to it? May be FIAT/FCA itself points the way. As the company gains bargaining power from its fragmentation strategies via globalisation and outsourcing, a way forward for labour might be to develop ‘reach’ strategies, that is, to forge links between workers involved in FCA products across countries and across the value chain. After all they are all being affected by the downward convergence strategy of FCA. They may all have interest in starting conversations with each other across nation-states and institutional barriers. It is difficult and it may take time but it is beginning to happen in other industries: from the McDonald strike (see Section 2) to cross-country action in Ryanair or Google (The Guardian, 2018a, 2018b). In a world in which firms operate internationally, TUs should broaden their scale of action in order to be effective even at the local level. Similarly, the changing borders of industrial sectors under technological advances may require the restructuring of TUs units (Garibaldo, 2012). Other challenges remain for both FCA and labour, in particular those deriving from pressure on demand, from governments regulation and from technological advances.

Italian TUs have to try and breach their divisions which fragment them and lead to loss of bargaining power. The existence of pluralism within the TU movement may be seen as a problem because it fragments labour (see Section 3.1) at the negotiating table. However, we must note two possible advantages of pluralism in the TU movement. First, by giving an institutional home to workers of many persuasions and political ideologies, plurality of TUs secures wider participation. This may be one of the reasons why Italy has high union density (Leonardi et al., 2017, section 2). Second, pluralism works in favour of both labour and capital as well as society at large. Securing that workers with varied political ideologies find an institutional home within the TU movement may be an insurance against uncontrollable individual and small groups’ wildcat actions as seen in Italy in 1969.

In terms of methodological approach, we cannot detect in FIAT’s behaviour an end point as equilibrium, but rather evolving situations with strategies being adopted along the way and in reaction to contingencies and to evolving moves and countermoves by other players such labour and its TUs.

Bibliography

Berta, G. 2011. FIAT, Chrysler e la deriva dell’Italia industriale, Bologna, Il Mulino

33 We are grateful to one of the referees for drawing our attention to this problem.


Castronovo, V. 2005. Fiat: Una storia del capitalismo italiano, Milano, Rizzoli

Coase, R. H. 1937. The nature of the firm, Economica, vol. 4, no. 16, 386–405


Federcio, S. 2012. Headquarter intensity and the choice between outsourcing versus integration at home or abroad, Industrial and Corporate Change, vol. 21, no. 6, 1337–58

Fiat Archivio Storico. 1996. Fiat: le fasi della crescita, Torino, Scriptorium/Paravia


Germano, L. 2009. Governo e grandi imprese. La Fiat da azienda protetta a global player, Bologna, Il Mulino


Griseri, P. 2012. La Fiat di Marchionne. Da Torino a Detroit, Torino, Einaudi


Knickerbocker, F. T. 1973. Oligopolistic Reaction and Multinational Enterprise, Cambridge, MA, Division of Research, Graduate School of Business Administration, Harvard University
Internationalisation, outsourcing and labour fragmentation


Talay, M. B. and Townsend, J. D. 2015. Do or die: competitive effects and Red Queen dynamics in the product survival race, Industrial and Corporate Change, vol. 3, 721–38

The Guardian. 2018a. Ryanair threatens to move jobs to Poland over strikes, 1 August, p. 29

The Guardian. 2018b. Google workers walk out over racism and sexual misconduct cases, 2 November, p. 3


Volpato, G. 2004. FIAT Auto. Crisi e riorganizzazioni strategiche di un’impresa simbolo, Torino, ISEDI


### Table A1. FIAT’s main domestic and international investment: 1939–2016

<table>
<thead>
<tr>
<th>Main domestic operations</th>
<th>Main international operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mirafiori (Turin)—greenfield</td>
<td>1939 Spain—Greenfield</td>
</tr>
<tr>
<td></td>
<td>Yugoslavia—joint ventures</td>
</tr>
<tr>
<td></td>
<td>Argentina—greenfield</td>
</tr>
<tr>
<td></td>
<td>Argentina—greenfield</td>
</tr>
<tr>
<td>Rivalta (Turin area)—greenfield</td>
<td>1967 Soviet Union—non-equity long-term industrial cooperation agreement</td>
</tr>
<tr>
<td></td>
<td>Poland—non-equity long-term industrial cooperation agreement</td>
</tr>
<tr>
<td></td>
<td>Poland—acquisition</td>
</tr>
<tr>
<td>Termini Imerese (Southern Italy)—greenfield</td>
<td>1970 Turkey—joint venture</td>
</tr>
<tr>
<td>closed in 2011</td>
<td></td>
</tr>
<tr>
<td>Cassino (Central Italy)—greenfield</td>
<td>1972 Brazil—greenfield</td>
</tr>
<tr>
<td></td>
<td>Brazil—greenfield</td>
</tr>
<tr>
<td>Alfa Romeo (Southern Italy)—acquisition</td>
<td>1986 India—joint venture</td>
</tr>
<tr>
<td>includes Pomigliano plant which is restructured in 2008–11</td>
<td></td>
</tr>
<tr>
<td>Melfi (Southern Italy)—greenfield</td>
<td>1992 China—joint venture</td>
</tr>
<tr>
<td></td>
<td>China—joint venture</td>
</tr>
<tr>
<td></td>
<td>GM (USA)—strategic alliance</td>
</tr>
<tr>
<td></td>
<td>Serbia—acquisition and plant restructuring</td>
</tr>
<tr>
<td></td>
<td>Chrysler (USA)—acquisition and merger</td>
</tr>
</tbody>
</table>